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**Joseph Bailey** • Aug. 09, 2018



I've spent a decade at Big 4 accounting firms PwC and Deloitte, startups, and my own firms. During my time at Big 4 firms, I encountered a multitude of industries, people, and problems working in the "corporate world". One problem I noticed was that there was a definitive class system when it came to the type of clients serviced, and what attention those clients would receive, or in the case of cannabis, not receive.

I attempted to approach a few partners prior to state legalization in Washington

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expecting to hear something more entrepreneurial and thought leading to be coming from this partner, but it was then that I realized how scared the outside public was of the impending cannabis industry. We are standing at the edge of the prohibition of cannabis, so people are going to have questions, especially people unfamiliar.

## ***The Question At Hand ...***

How do you explain your cannabis clients to your non-cannabis clients? Good question, but we should start with two assumptions that need to be made. One, you are working with State licensed companies. Two, your client's starting point of view on cannabis isn't already set in angry stone.

The cannabis industry already has its own set of perilous issues to be aware of, do not make it worse by working with unlicensed companies. The only people you should be working with as a CPA are folks who have gone through the vetting and permitting process in that state. That means doing a background check on your prospective client, looking into the company in question on the Secretary of State website, checking their licensing status with the State, etc. Checking these few things goes a long way for your personal assurance that you are working with reputable people.

Just know that if your client is dead set against cannabis legalization usage, etc., you are **not** going to change his/her mind by talking to them, period. Be aware that you may be walking into an ambush, and said client just wants to let you have it before disengaging and going to another CPA. On the other hand, if your clients are asking simply because they want to understand the industry, the business owners, etc. that is a different story and one which we approach below.

So, your client Steve walks in and says, "Accountant Joe, I hear you're dealing with people in the marijuanas. Is that true?" Your answer should immediately be what?

“Yes, it’s true, if you’re concerned please feel free to have a seat and let’s chat. I don’t

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Okay you’ve broken the ice, now how are you going to explain this to Steve that has owned the dry-cleaning business for 30 years and didn’t even know cannabis is the actual name for “marijuana”? I found that the best way to start this conversation is by illustrating what is similar between a cannabis and non-cannabis company, then how the cannabis company goes above and beyond normal business requirements. People tend to think that there are many more differences than similarities and that’s just not true. And why isn’t that true? At the end of the day, a cannabis company really is just a... company.

## **Point #1 – These people aren’t criminals or cartels, they’re business professionals forging an entirely new industry without a playbook**

Cannabis companies are among the most highly regulated and taxed companies For a quick explanation as to why, you can simply let the client know that unlike their business, cannabis companies are not allowed to deduct normal business expenses. The reason this is important to bring up is that when your non-cannabis clientele is thinking of a cannabis company, they’re likely thinking of black-market marijuana. There’s a big difference between black-market marijuana and a state legal cannabis company because unlike a black-market marijuana dealer, these cannabis companies undergo a serious amount of vetting to first get their license and then even more work to keep that license.

If somebody wanted to just deal marijuana, they certainly wouldn’t go about it by creating a state licensed cannabis company. Why not? Because they would just sell marijuana and not go through the process and the troubles of putting themselves on all the documentation (hundreds of pages), the background checks, the fingerprint checks to get this license if they were just going to do something illegal anyways.

These folks pay all the fees/permits that a regular business pays, and then they also

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of this until you point it out. Even though I generally do not like the alcohol vs. cannabis comparisons for philosophical reasons (mainly that cannabis is orders of magnitude less dangerous physically and culturally), but it may help to point out major alcohol companies and NASCAR all stem from illegal moonshining. This is all a matter of perception.

## **Point #2 – These are family-owned businesses**

Most of these companies are family-owned businesses. Approximately 70% of my clients are family-owned businesses. This is not a Mexican drug cartel, as some people would like you to believe. In fact, most of these businesses are literal mom and pop shops where the spouses run the business together, trying to make things work without staff. These are startup companies that not only face the regular hazards of business, but then must deal with hyper regulation all while not having any access to banking nor business loans. Your non-cannabis clients should really relate to that.

When you step outside of the mom and pop shop cannabis companies, then you're starting to get into more of the classically structured corporations which are entering the industry as well. This will happen more and more as the industry matures, and as more businessmen join, the need to "explain the industry" will start to go away.

## **Point #3 – These businesses do a LOT of good for the community**

Part of the extreme regulation faced is surveillance, which means that every one of these cannabis companies has an extensive surveillance system including video cameras with recording quality that would make a bank jealous. In most cases these companies are storing Terabytes of information in case it is needed. Your bank wishes they had the security system that your cannabis companies nearby do. What

does that mean for the community? Most current information indicates that crime

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change the community of the cannabis industry. These folks tend to be genuine, thoughtful, and understanding of human interaction that goes beyond the public. Think about it, if your entire business depended on verbal “handshake and a smile” agreements, you had no legal recourse for issues, and wanted everyone to think the best about you, how would you act in public? Exactly.

If you pay attention you will often see a cannabis dispensary giving money to charity, doing food drives, raising money for local women's and children's shelters, etc. Are they doing this for publicity? No, mostly the news stays away, and the good deeds are not publicized because they're attached to a cannabis company. Beyond that, there are extreme advertising regulations in most states as well, so even if they wanted to publicize the matter they are not able to do so. Then recall that there are no deductions for any money they spend on charitable events, so every dollar spent on charity costs them \$1.50 (\$1 and lost \$0.50 tax savings), and you'll see how charitable it really is.

## Summary

Cannabis companies are highly regulated, overtaxed, underrepresented, and should not be feared. For the most part these are family owned operations that do their best to benefit their community to a great deal, even sometimes at their own peril.

These business owners are highly vetted, highly surveilled, and all indications and studies so far have shown that they are good community actors and that crime statistics look better *after* cannabis companies enter the neighborhood.

Stick with those topics and just know that some people, no matter the evidence at hand, will have their own negative personal opinions that will not be swayed. Your non-cannabis clients may have some philosophical issues with legalization of cannabis, the good versus harm to individuals physically, etc. I'd urge you to stay

away from these sorts of topics. These conversations are highly personal in nature,

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